

## GALAXY RESOURCES LIMITED

### RECOMMENDATION: Speculative buy.

**The lithium boom is about to get going. Galaxy offers a pure exposure, with a crucially short lead time to production.**

*Comment: In the jostle for spots to supply lithium carbonate to the battery market Galaxy is more agile than the brines, and better able to make use of Chinese markets than other hard rock lithium sources.*

### INVESTMENT DATA

Share price (last trade 3<sup>rd</sup> Sept. 2009): A\$1.395  
ASX Code: GXY

### ISSUED CAPITAL\*

FPO shares\*: 171.2m  
Unlisted options: 22.5m  
Market capitalisation (fully diluted): A\$150m

\*Galaxy has 86.2 million ordinary shares on issue prior to proposed placements totalling 85 million shares to raise A\$85 million. See Finance section.

### MAJOR SHAREHOLDERS\*

Creat Group Co. Ltd: 19.9%

\*Post placement.

### DIRECTORS\*

Craig Readhead Non Executive Chairman  
Igy Tan Managing Director  
Robert Wanless Non Executive Director

\*Creat Group Co. Ltd will be offered a Non-Executive Director board position upon shareholder approval of the placement.

### KEY POINTS

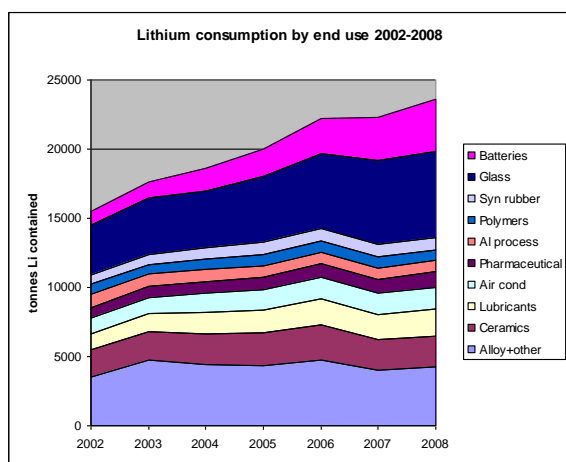
- Galaxy is developing the Mt Cattlin lithium resource in Western Australia, and the Jiangsu downstream processing plant in China.
  - Demand for lithium is entering a new growth phase on the take up of lithium ion batteries for automotive use. From almost a zero base in 2008, all major auto firms are investing in or facilitating lithium based battery manufacturing capacity in 2009.
  - Lithium supplies are currently concentrated in a handful of projects, none of which can be quickly expanded. Among greenfield projects, resource quality and proximity to a low cost industrial complex are uncommon.
  - Galaxy is planning to produce and sell 17,000 tonnes of battery grade lithium carbonate per year from 2011, equivalent to 20% of global demand in 2008.
  - The Mt Cattlin resource is mineable by open cut at a low waste:ore ratio. Tests indicate the ore is readily upgradable to a premium grade concentrate.
  - The lithium carbonate plant site in Jiangsu, China was selected for capital cost savings, and access to utilities, port, consumables suppliers, by-product markets and battery component manufacturers.
  - Galaxy estimates the capital cost of construction for both facilities at A\$130 million, including working capital.
  - Beijing based investor Creat Group has agreed to subscribe for A\$30 million in new Galaxy equity, subject to shareholder approval and an additional A\$65 million Galaxy equity raising.
  - Creat has also offered to guarantee a A\$130 million debt facility for Galaxy, provided by RZB, an Austrian commercial and investment bank
- ### RISKS
- The lithium market is historically relatively small and secretive. Galaxy is relying on the disruption caused by new battery demand to enter the market with significant quantities.
  - Inventories must be built up and maintained at the mine, concentrator, ports and converter, requiring careful logistics management, particularly in the commissioning phases.
  - Battery grade lithium carbonate is >99.5% pure. Galaxy needs to meet specifications to access the high growth battery market.

## 1. COMPANY BACKGROUND

Galaxy Resources Limited listed on the Australian Stock Exchange in late 2006 after a prospectus issue. The company has since advanced the Mt Cattlin/Jiangsu Lithium Project to feasibility study and financing stages.

## 2. LITHIUM DEMAND

Lithium is a familiar component of the batteries commonly used to power portable electronic devices and electric tools. The success of lithium based battery technologies has led to a solid growth trajectory in demand for primary lithium.



Source: TRU Group

Battery lithium use has accounted for most of the 7% annual lithium consumption growth rate since 2002.

Among metals, the volume of lithium required is still modest. In 2008, a handful of primary producers shared total lithium revenue of about US\$500 million, of which only about 15% was due to battery demand. However lithium producers and developers are confident that what they have seen in batteries so far is just the warm up event. In 2009 lithium based battery technologies have taken centre stage in a concerted push by governments and auto manufacturers to introduce a new generation of mass produced electric vehicles.

To date the mass produced hybrid electric vehicles made by the major auto manufacturers have used nickel metal hydride batteries. With the benefit of certain technological advances momentum has shifted almost entirely to lithium batteries for automotive use. The first commercial facility manufacturing lithium ion cells for automotive use was commissioned in France in early 2009. Mercedes Benz and BMW plan to become the first major carmakers to sell vehicles using lithium batteries,

with the release of the S400 Hybrid and the 7 Series ActiveHybrid respectively in the second half of 2009.

In 2008, the Obama Administration pledged to put 1 million hybrid electric vehicles on the road by 2015. As part of policies to reduce offshore energy dependence and carbon emissions, the US government has since implemented several measures designed to establish a mainstream electric vehicle market in the US.

In August 2009, the US Government awarded US\$2.4 billion in grants "to accelerate the manufacturing and deployment of the next generation of US batteries and electric vehicles."

Overwhelmingly, the 2009 US grants were directed towards lithium based battery development and manufacture. The principal recipients; A123Systems, Johnson Controls, Compact Power, Dow Kokam, Saft America and Celgard are all planning to build commercial lithium battery manufacturing facilities in the US for the automotive market.

General Motors, Ford and Chrysler also received grants to assist their respective electric vehicle development programs. GM plans to introduce the Chevy Volt, powered by a Compact Power (LG) lithium ion battery, in 2010. Ford announced plans in April 2009 to replace the NiMH batteries in its hybrid vehicles with lithium ion batteries between 2010 and 2012. In April 2009 Chrysler selected A123Systems to supply lithium ion batteries as part of Chrysler's target of introducing an electric vehicle in 2010.

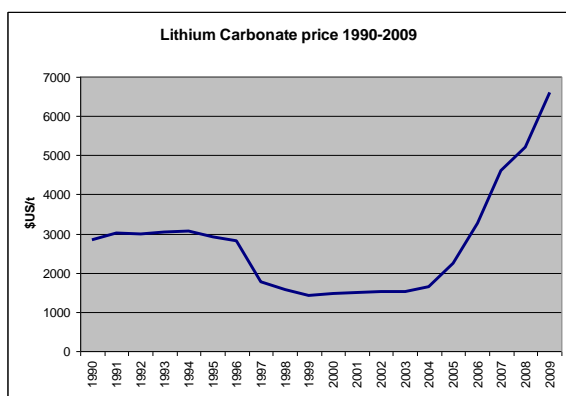
Elsewhere, Toyota, a pioneer of NiMH battery use in hybrid cars, is planning to begin mass production of lithium ion batteries in joint venture with Panasonic in 2010, and purchase additional units from Sanyo in 2011. In August 2009, Nissan unveiled the Nissan Leaf, an all electric, lithium ion battery powered hatchback, due on sale from late 2010.

In terms of contained lithium per unit, automotive use is in another league to mobile phones and laptops. A typical mobile phone battery contains 0.4 grams of lithium and a laptop computer contains about 18 grams. 'Mild' hybrid vehicles like the Mercedes S400 (in which the batteries assisting the internal combustion engine are recharged internally only), contain about 250 grams of lithium. Each Chevy Volt or Nissan Leaf (electric vehicles charged principally through mains electricity) will carry between 2 and 5 kilograms of lithium.

Estimates of future automotive lithium demand depend on the technology mix and the adoption rate, neither of which are predictable with much assurance. 60 million new cars are registered around the world each year. An adoption rate of 10% of new vehicles, using an average of 1.5kg of lithium per vehicle, would

require 9,000 tonnes of new annual lithium production, or about 40% of current world supplies. Assuming other applications maintain their current growth rate, the 9,000 additional tonnes of lithium consumed in autos by 2020 would require a 5% average annual growth rate in lithium supplies.

While the above figures are fairly arbitrary, they do suggest that the lithium industry could conceivably keep supplies up to coming demand. Studies conducted for the auto industry have concluded as much, relying on recycling to contribute significantly after 2020. For now fears that supply shortages could strangle lithium battery development have been set aside. Suppliers are on notice however to start developing new lithium resources. The rising price of lithium carbonate is one symptom of the pressure building on lithium supplies.



Source: TRU Group

### 3. LITHIUM SUPPLIES

The first efforts to find and develop primary lithium sources began in the mid 1970s. Most early production came from coarse grained igneous rocks called pegmatites, in which lithium minerals are often associated with tin and tantalite. Established mines extracting tin and tantalite with physical separation processes added lithium streams as the lithium market developed in the 1980s.

Lithium also occurs in brine deposits, leached from the surrounding rocks and concentrated by evaporation in high altitude, dry climate salt lakes.

In 1997, the lithium carbonate price collapsed in concert with a major expansion of output from the Salar de Atacama in Chile. Lithium from the Salar de Atacama, the largest salt flat in the world, has since dominated lithium supplies.

In 2008, about half of the world's lithium was produced from two brine complexes on the Salar de Atacama, operated independently by Chilean based

SQM and Chemetall, of the US. A third major brine operation, Salar del Hombre Muerto in Argentina, was developed by FMC Corp in 1998, operated well below capacity until 2005, and produced 15% of the world's lithium in 2008.

The largest pegmatite source of lithium is Talison Minerals' Greenbushes operation in Western Australia. In 2009, Greenbushes supplied about 24% of the world's lithium, in the form of spodumene concentrates. Spodumene ( $\text{Li}_2\text{O} \cdot \text{Al}_2\text{O}_3 \cdot 4\text{SiO}_2$ ) is the most common and highest grade lithium mineral in commercial pegmatites. A proportion of Greenbushes' concentrates are sold as direct feed in glass and ceramics applications. Talison also sells spodumene concentrates to Chinese 'converters'; small to medium scale manufacturers of lithium carbonate.

### 3.1. BROWNFIELDS LITHIUM

No explicit cost indications are available or discernible from the above operations. In all cases costs are veiled by one ore more of: co-product costs and revenues, diversified conglomerate accounts, private company status, commercial in confidence considerations, and a general desire to deter competitive lithium suppliers, particularly new entrants.

In this spirit, the major lithium producers have each recently stressed their reserve longevity and their ability to expand to meet new demand, while hinting at the difficulties facing new aspirants. Commitments to expansions though, are generally more guarded.

SQM expanded its lithium carbonate capacity from 30,000 to 40,000 tonnes of lithium carbonate equivalent (LCE) in 2008. Chemetall aims to expand to 40,000 tonnes LCE by 2015 after producing 27,000 tonnes in 2008. Expansion plans on the Salar de Atacama may be tempered by lower marginal grades, the capital costs of new evaporation ponds and the need to find new markets for co-products. FMC struggled for several years at its Argentinian salar, suspending lithium carbonate production because of higher than planned capital and operating costs. The salars have their own challenges and they are not necessarily a cheap and plentiful future source of lithium.

In contrast with the more historically important tantalum operations, which are suspended, Talison has recently expanded its Greenbushes low grade lithium circuit and is seeking to advance a project that will produce lithium chemicals for the battery market. To date the output from Talison's low grade pegmatite has been constrained by the capacity of the Chinese converters. There are currently about 10 Chinese converters with a collective capacity of 20,000 tonnes

of lithium carbonate. Talison supplies about 60% of the Chinese converters' spodumene feed. Talison and its predecessors at Greenbushes have long sought greater access to the lithium chemicals market. A lithium carbonate plant was installed at Greenbushes in 1997 but never achieved capacity and was later dismantled. The issue of setting up in competition with its customers is a key stumbling block for Talison.

### 3.2. GREENFIELDS LITHIUM

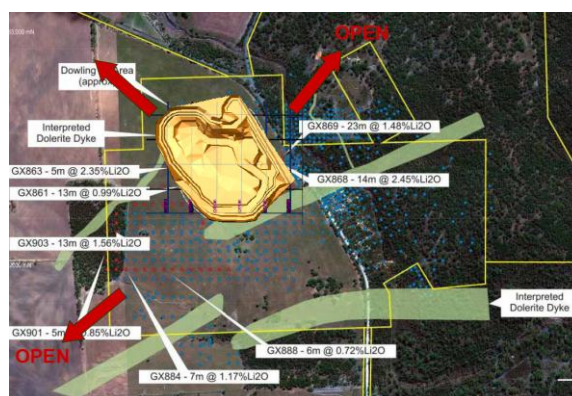
The building hype surrounding the lithium market has encouraged the promotion of new projects, including Galaxy Resources' Mt Cattlin. Claims and counter claims about lithium sector costs should be viewed in the light of the absence of any yardsticks and the degree to which market share is desperately being sought and protected.

There are several new lithium project proposals. The large scale brine deposits in Bolivia's Salar de Uyuni remain in limbo, due mainly to high magnesium content (which complicates the processing), the remote location and political intransigence. Production of lithium from China's brines has also been held back by remoteness and high magnesium, despite recent development efforts. The most advanced, independently held brine project, Rincon in Argentina, was sold by its distressed owner to a hedge fund in early 2009 for US\$23 million. The major players allowed the deal to pass, in the process giving a genuine indication that few undeveloped salars can match the favourable chemistry and evaporation rates on the Salar de Atacama.

A variety of pegmatites and other potential sources of lithium are also being brought forward for potential development. In the past the best margins for pegmatite derived lithium were available from selling spodumene concentrates for direct feed into glass and ceramic manufacturing processes. The anticipated growth in battery demand is leading most developers, including Galaxy, to investigate the viability of converting spodumene to lithium carbonate. The cost of conversion is expected to be 30-50% of the total cost of lithium carbonate production. Hence in addition to favourable ore deposit characteristics a new set of natural advantages are sought, including access to low cost power and soda ash, and an ability to sell a sodium sulphate by-product. Galaxy believes the combination of the Mt Cattlin pegmatite with an integrated lithium carbonate plant in China will deliver cost competitive lithium carbonate to Asian markets.

## 4. MT CATTLIN

Galaxy acquired the key Mt Cattlin tenement in late 2006 from the receivers of Sons of Gwalia for A\$730,000. Outcropping pegmatites at Mt Cattlin, just two kilometres outside Ravensthorpe in Western Australia, had been drilled for tin and tantalite by Western Mining in the 1960s and again by Pancontinental in the 1980s. Galaxy recognised the project's lithium potential, consolidated the tenure and drill database and recommenced drilling in March 2007.



Resources at Mt Cattlin were estimated in May 2009.

### MT CATTLIN RESOURCES, MAY 2009

#### 0.4% Li<sub>2</sub>O cut-off

Category	Mt	Li <sub>2</sub> O%	Ta <sub>2</sub> O <sub>5</sub> ppm
Measured	2.3	1.19	143
Indicated	7.1	1.10	156
Inferred	5.0	1.01	152
<b>TOTAL</b>	<b>14.4</b>	<b>1.08</b>	<b>153</b>

The Mt Cattlin pegmatite comprises one or more flat lying sills beneath zero to 30 metres of overburden. The mineralised zones average 8 metres thick and are drilled mostly on a 40 by 40 metre spacing across a 1km by 1km area. Parts of the resource margins are open and require more drilling.

Galaxy's initial reserve estimates draw only on the measured and indicated resources. Galaxy is planning an open pit mine at Mt Cattlin to extract 1.0 million tonnes of ore per year for 15 years, including some of the resources currently classed inferred. The average waste to ore ratio over the pit life is expected to be about 3:1.

Galaxy has works approval to begin construction of permanent buildings on site, and mining approval on one side of the road traversing the pit design. Mining is not planned east of the road until after 2015.

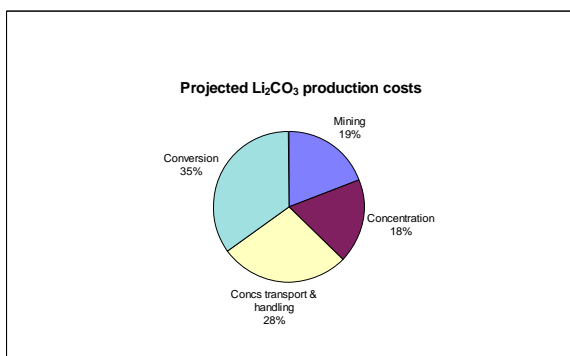
Spodumene concentrate will be produced on site. Processing will entail crushing to -6mm and screening, with the +0.5mm fraction proceeding to three stage heavy media separation, gravity concentration and drying. Tantalite will be recovered from the -0.5mm fraction.

Galaxy aims to recover 75% of total lithium (non-spodumene lithium minerals such as lepidolite are present and will not report to concentrate) into a concentrate grading 6% Li<sub>2</sub>O. The higher the concentrate grade the higher both recovery and throughput at the conversion stage.

The option of installing a flotation circuit to recover additional spodumene from the -0.5mm fraction will be included in the process design. The benefits of increasing the recovery and the concentrate grade are to be weighed against the influence of the fines on calcine performance in the converter.

Power will be generated on site by diesel gensets and Galaxy expects to meet the plant's water requirements with on-site bores. The workforce is expected to live in the district.

A single stream of spodumene concentrate will be trucked 185 kilometres to the port of Esperance. The concentrate is stable and can be held on site and in Esperance storage facilities. Minor amounts of tantalite concentrate will be recovered and trucked to Fremantle for export.



Source: Galaxy, Green Leader

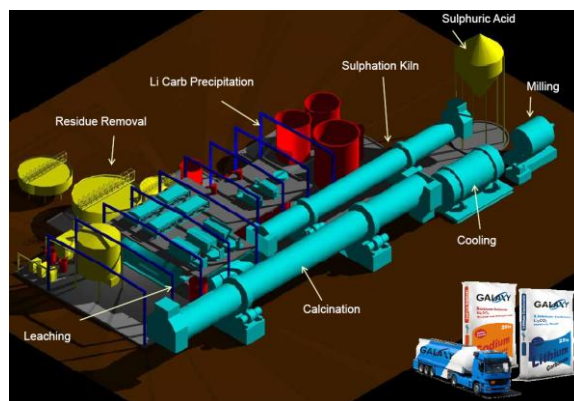
Planned output from Mt Cattlin is 137,000 tonnes of spodumene concentrate grading 6% Li<sub>2</sub>O.

From a processing perspective, the Mt Cattlin pegmatite differs from Greenbushes in several respects:

- Mt Cattlin lacks Greenbushes' high grade component and low iron content. These two factors disqualify Mt Cattlin from supplying the direct feed glass and ceramics markets in which Talison has a dominant position.
- Metallurgical testing indicates the Mt Cattlin ore upgrades more efficiently than at Greenbushes after a relatively coarse crush and through heavy media separation alone. Mt Cattlin ore is coarser grained and the spodumene crystals are less intergrown with the quartz gangue.

## 5. JIANGSU

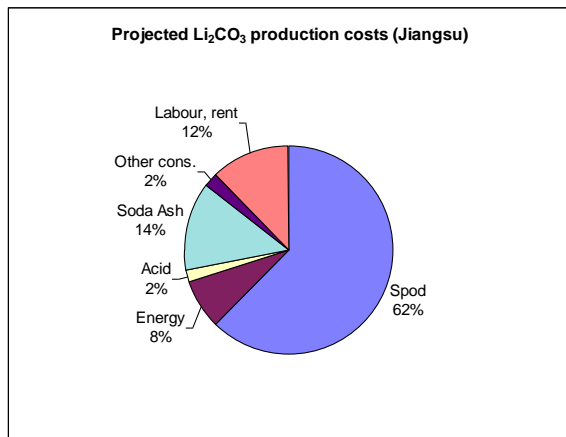
Having recognised Mt Cattlin's fit with the lithium chemical market, an entry to the lithium carbonate market was sought. With the brines players unable to quickly expand, and with Talison locked into a static customer base, Galaxy sensed a gap in the market opening for a new lithium carbonate plant.



Galaxy's strategy is to replicate the Chinese converters' process route and success, but with several improvements;

- The plant will be the largest lithium carbonate conversion facility in the world, with better economies of scale than the small Chinese plants.
- Galaxy will build a plant using a continuous cycle with automated process control. The existing Chinese converters use batch processing and manual process control.
- The facility will be built next to a port, in an industrial park, where reagent suppliers, by-product customers and residue disposal options are readily available. The existing converters were built up to 600km inland next to pegmatite resources that have since given way to imported spodumene, largely from Greenbushes. Inland transportation is a significant cost burden.

In 2009, Galaxy signed a 50-year lease agreement on a site suitable for a lithium carbonate plant in the Yangtze River International Chemical Industrial Park, in the Jiangsu Province of China.



Source: Galaxy, Green Leader

Galaxy intends to build a plant capable of converting the entirety of Mt Cattlin’s annual output to 17,000 tonnes of lithium carbonate each year. Galaxy appointed Hatch China in July 2009 to conduct the Jiangsu Feasibility Study.

Galaxy has signed letters of intent to purchase soda ash and sulphuric acid from suppliers within the industrial park to cover the plant’s needs. The two main by-products, alumino silicate (130,000 tonnes per annum at full capacity) and sodium sulphate (52,000 tpa) are potentially saleable within the park. Alumino silicate can be used as a cement additive. Sodium sulphate is consumed in textile and detergent manufacturing.

## 6. CAPITAL EXPENSE, TIMETABLE

Galaxy estimates the capital cost of Mt Cattlin’s development to full capacity at A\$68 million. Subject to feasibility study conclusion the Jiangsu lithium carbonate facility capital cost is estimated at A\$50 million.

Working capital to cover the split process and build up of stocks in Australia and China prior to first revenue is estimated at A\$12 million.

Subject to completion of funding arrangements Galaxy plans to begin construction at Mt Cattlin in October 2009. Commissioning is anticipated in October 2010.

The Jiangsu Feasibility Study is due to be completed in mid-October 2009. Galaxy is aiming to commission the Jiangsu plant in late 2010 for first revenue in early 2011.

## 7. MARKETING

At 17,000 tonnes per year, Galaxy is entering the market with about 17% of the world’s 2008 lithium carbonate market demand and about 80% of the lithium carbonate total produced in China in 2008.

Given the pace of development of new battery production facilities around the world it is conceivable that Galaxy’s entry level material will be immediately absorbed. Assuming 2.5% growth in other applications, about 18% growth in battery demand for lithium carbonate in each of 2010, 2011 and 2012 is required to absorb 17,000 new annual tonnes in 2012. This growth rate is within the bounds of most industry forecasters, and not out of sync with the frenetic activity observable in the auto market.

Battery grade lithium carbonate (>99.5% Li<sub>2</sub>CO<sub>3</sub>) is the standard feed for the lithium battery industry. Technical grade material (99% Li<sub>2</sub>CO<sub>3</sub>) competes with specialty spodumene in the glass and ceramics market and commands 10-15% lower prices. Galaxy intends securing and maintaining wholly battery grade output, for fear of overwhelming the glass market.

Chinese firms are major players in battery manufacturing. Lithium carbonate is the base material for manufacturing various intermediate lithium chemicals that are delivered as cathode or electrolyte to battery makers. About half of the world’s intermediate lithium chemicals destined for battery use is manufactured in China. Galaxy intends to sell up to 60% of its lithium carbonate into the domestic Chinese market. Domestic sales attract a VAT refund resulting in a net 7% differential in local and offshore revenues for Chinese producers. Non-Chinese sales are expected to be split between Japanese, Korean, Taiwanese and European markets.

## 8. EXPLORATION

The limits and underlying repetitions of the Mt Cattlin pegmatites remain largely unresolved. Pegmatite outcrops on Galaxy tenements two kilometres north of Mt Cattlin suggest a detailed search would reveal a wide distribution of spodumene mineralisation in the district. Galaxy is the largest regional tenement holder.

## 9. FINANCE

In August 2009 Galaxy announced plans to raise new equity for Mt Cattlin's and Jiangsu's construction. Beijing based investment company Creat Group Co Ltd agreed to initially subscribe for 21 million new shares, or 19.9% of Galaxy's expanded capital, at 88 cents per share. A subsequent placement of 51 million shares at \$1.28 per share is proposed, accompanied by Creat's top up to 19.9% through the issue of an additional 13 million shares at 88 cents each. The total proposed raising is A\$85 million. The placements are conditional on shareholder approval at an EGM to be held in early October 2009.

As part of the same agreement Creat has offered to guarantee Galaxy a A\$130 million debt finance facility, with an amortising seven year term and an interest rate of LIBOR +5%, provided by RZB, a leading Austrian commercial and investment bank.

Galaxy will retain full control of all lithium product marketing rights. Creat Group will be offered a Non-Executive Director position on Galaxy's board.

Prior to the October 2009 equity raising Galaxy has 86.3 million issued ordinary shares and 22.5 million unlisted options, with varying exercise prices up to 60 cents each.

## 10. DIRECTORS & MANAGEMENT

Iggy Tan was appointed Managing Director of Galaxy in 2008. He was previously manager of the lithium mineral and lithium carbonate plants at Greenbushes in 1995, and has held managerial roles at SCM Chemicals, Westlime, Iluka Resources, Imdex Minerals and Metals X Limited.

Mining engineer Terry Stark is General Manager of Galaxy's Western Australian operations. Metallurgist Michael Tamlin, Galaxy's General Manager China, was Manager for Sons of Gwalia/Talison from 1995 to 2006. Galaxy appointed Anand Sheth Marketing and Business Development Manager in 2009. Anand Sheth previously managed the lithium and tantalum marketing programs for Sons of Gwalia/Talison from 1999 to 2009.

## 11. LITHIUM'S BIG FOUR

SQM. Chilean based, NYSE listed. Produces lithium from Salar de Atacama only. World's largest producer at about 29% of world lithium output in 2008, along with potassium chloride, potassium sulphate, boric acid and magnesium chloride co-products. Lithium comprised 8% of revenues in the 1<sup>st</sup> half 09.

Chemetall. Subsidiary of diversified Rockwood Holdings. A large operation on the Salar de Atacama and a small brine at Silver Peak, Nevada. 28% of world's lithium output in 2008.

FMC. Produces lithium from Salar del Hombre Muerto in Argentina. Lithium comprised a small revenue proportion of total revenue in 2008. Capacity 17,000 tonnes LCE pa (15% of the world's lithium output).

Talison/China. Privately owned Talison produces about 25% of the world's lithium from the Greenbushes pegmatite, of which about half is converted to lithium carbonate by numerous third parties in China.

## 12. FORECASTS

### 12.1. PRODUCTION FORECASTS – MT CATTLIN/JIANGSU

Year End 30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Mt Cattlin (100%)</b>										
Ore treated (000t)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Head grade (%Li <sub>2</sub> O)	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Spod prodn (000t)	138	138	138	138	138	138	138	138	138	138
Conc. grade (%Li <sub>2</sub> O)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
<b>Jiangsu (100%)</b>										
Li <sub>2</sub> CO <sub>3</sub> sales (000t)	14.4	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
GXY capex (\$m)	50	68	4	4	4	4	4	4	4	4

## 12.2. PROFIT AND CASH FLOW FORECASTS – GALAXY RESOURCES LIMITED

Profit & Loss	Unit	06-2011	06-2012	06-2013	06-2014	06-2015	06-2016	06-2017	06-2018
<b>Net Revenue</b>	<b>A\$m</b>	<b>120.2</b>	<b>147.1</b>	<b>150.1</b>	<b>153.1</b>	<b>156.1</b>	<b>159.3</b>	<b>162.5</b>	<b>165.7</b>
<b>Total Costs</b>	<b>A\$m</b>	<b>(88.9)</b>	<b>(92.8)</b>	<b>(92.9)</b>	<b>(93.0)</b>	<b>(93.1)</b>	<b>(93.1)</b>	<b>(93.2)</b>	<b>(93.3)</b>
EBITDA	A\$m	31	54	57	60	63	66	69	72
Depreciation/Amort	A\$m	(8)	(8)	(9)	(9)	(9)	(10)	(10)	(10)
<b>EBIT</b>	<b>A\$m</b>	<b>23</b>	<b>46</b>	<b>49</b>	<b>51</b>	<b>54</b>	<b>57</b>	<b>59</b>	<b>62</b>
Net Interest	A\$m	(6)	(5)	(4)	(3)	(3)	(2)	(1)	
<b>Pre-Tax Profit</b>	<b>A\$m</b>	<b>17</b>	<b>41</b>	<b>44</b>	<b>48</b>	<b>51</b>	<b>55</b>	<b>58</b>	<b>62</b>
Tax Expense	A\$m	(5)	(12)	(13)	(14)	(15)	(16)	(18)	(19)
<b>NPAT</b>	<b>A\$m</b>	<b>12</b>	<b>29</b>	<b>31</b>	<b>34</b>	<b>36</b>	<b>38</b>	<b>41</b>	<b>43</b>
Abnormal Items	A\$m								
<b>Reported Profit</b>	<b>A\$m</b>	<b>12</b>	<b>29</b>	<b>31</b>	<b>34</b>	<b>36</b>	<b>38</b>	<b>41</b>	<b>43</b>
Balance Sheet	Unit	06-2011	06-2012	06-2013	06-2014	06-2015	06-2016	06-2017	06-2018
<b>Cash</b>	<b>A\$m</b>	<b>47</b>	<b>81</b>	<b>117</b>	<b>156</b>	<b>198</b>	<b>239</b>	<b>283</b>	<b>345</b>
Other Current Assets	A\$m	24	24	24	24	24	24	24	24
<b>Total Current Assets</b>	<b>A\$m</b>	<b>72</b>	<b>105</b>	<b>141</b>	<b>180</b>	<b>222</b>	<b>263</b>	<b>307</b>	<b>369</b>
Property, Plant & Equip.	A\$m	147	142	136	130	123	115	106	97
Investments/other	A\$m								
<b>Tot Non-Curr. Assets</b>	<b>A\$m</b>	<b>147</b>	<b>142</b>	<b>136</b>	<b>130</b>	<b>123</b>	<b>115</b>	<b>106</b>	<b>97</b>
<b>Total Assets</b>	<b>A\$m</b>	<b>218</b>	<b>246</b>	<b>277</b>	<b>310</b>	<b>345</b>	<b>378</b>	<b>413</b>	<b>466</b>
Short Term Borrowings	A\$m								
Other	A\$m								
<b>Total Curr. Liabilities</b>	<b>A\$m</b>								
Long Term Borrowings	A\$m	70	60	50	40	30	15		
Other	A\$m								
<b>Total Non-Curr. Liabil.</b>	<b>A\$m</b>	<b>70</b>	<b>60</b>	<b>50</b>	<b>40</b>	<b>30</b>	<b>15</b>		
<b>Total Liabilities</b>	<b>A\$m</b>	<b>70</b>	<b>60</b>	<b>50</b>	<b>40</b>	<b>30</b>	<b>15</b>		
<b>Net Assets</b>	<b>A\$m</b>	<b>148</b>	<b>186</b>	<b>227</b>	<b>270</b>	<b>315</b>	<b>363</b>	<b>413</b>	<b>466</b>
Cash Flow	Unit	06-2011	06-2012	06-2013	06-2014	06-2015	06-2016	06-2017	06-2018
Operating Cashflow	A\$m	31	54	57	60	63	66	69	72
Income Tax Paid	A\$m								
Interest & Other	A\$m	(6)	(5)	(4)	(3)	(3)	(2)	(1)	
<b>Operating Activities</b>	<b>A\$m</b>	<b>25</b>	<b>49</b>	<b>53</b>	<b>57</b>	<b>61</b>	<b>64</b>	<b>68</b>	<b>72</b>
Property, Plant & Equip.	A\$m	(68)	(4)	(4)	(4)	(4)	(4)	(3)	(3)
Exploration	A\$m								
Investments	A\$m								
<b>Investment Activities</b>	<b>A\$m</b>	<b>(68)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>	<b>(3)</b>	<b>(3)</b>
Borrowings	A\$m	70	(10)	(10)	(10)	(10)	(15)	(15)	
Equity	A\$m								
<b>Financing Activities</b>	<b>A\$m</b>	<b>70</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(15)</b>	<b>(15)</b>	
<b>Net Cash Change</b>	<b>A\$m</b>	<b>27</b>	<b>35</b>	<b>39</b>	<b>43</b>	<b>47</b>	<b>46</b>	<b>50</b>	<b>69</b>
Ratio Analysis	Unit	06-2011	06-2012	06-2013	06-2014	06-2015	06-2016	06-2017	06-2018
GCFPS	A¢	16.2	28.2	29.7	31.2	32.8	34.3	35.9	37.6
CFR	X	8.5	4.9	4.6	4.4	4.2	4.0	3.8	3.7
EPS	A¢	6.3	14.9	16.2	17.4	18.7	19.9	21.2	22.5
PER	X	21.7	9.2	8.5	7.9	7.4	6.9	6.5	6.1
DPS	%	2.9	8.1	10.5	14.1	20.1	na	na	na
Yield	%	16%	33%	36%	40%	44%	49%	56%	64%
Interest Cover	x	12%	22%	20%	18%	17%	16%	15%	14%
ROCE	%	47.5%	32.6%	22.5%	15.3%	9.9%	4.3%	-	-
ROE	%	16.2	28.2	29.7	31.2	32.8	34.3	35.9	37.6
Gearing	%	8.5	4.9	4.6	4.4	4.2	4.0	3.8	3.7
*All values fully diluted unless otherwise stated									
Price Assumptions	Unit	06-2011	06-2012	06-2013	06-2014	06-2015	06-2016	06-2017	06-2018
Li <sub>2</sub> CO <sub>3</sub> battery grade	US\$/t	6,242	6,367	6,494	6,624	6,757	6,892	7,030	7,170
Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

### 13. VALUATION

Assets	A\$m	Cents /share
Mt Cattlin/Jiangsu	297	174
Cash & deposits	80	47
Option adjustment	-39	(23)
<b>Share valuation</b>	<b>338</b>	<b>198</b>

The Mt Cattlin/Jiangsu project is valued under the base case assumptions, at an 8% real, after tax discount rate. 30% tax is assumed to be paid on all profits repatriated to Australia. The cost and revenue assumptions (including 2% annual price increases from 2010) have been aligned with Galaxy's feasibility study inputs as at August 2009. The Jiangsu lithium carbonate plant is still the subject of a Feasibility Study and the base assumptions may differ from the Feasibility Study conclusions. An AUD/USD rate of 0.75 is assumed for the life of the project. An AUD/USD rate of 0.80 over the life of the project reduces the above valuation to \$1.78 per share.

### 14. COMPARABLES

Company	Ticker	Shares million	Price A\$	Mkt Cap A\$m	Net Cash A\$m	EV A\$m	Comment
SQM de Chile S.A.	NYSE:SQM	263	39.65	10,427	420	10,007	Low leverage.
FMC Corp	NYSE:FMC	73	57.85	4,194	-500	4,694	Low leverage.
Rockwood Holdings	NYSE:ROC	74	22.59	1,674	-2,500	4,174	Low leverage.
Talison Minerals	n/a						Unlisted.
Galaxy Resources	ASX:GXY	170	1.39	235	80	155	Mt Cattlin pegmatite. Feasibility study completion, financing.
Western Lithium	TSX V:WLC	67	1.13	75	15	60	Kings Valley rhyolite Nevada. Scoping study, metallurgical testing.
Canada Lithium	TSX V:CLQ	113	0.66	75	3	72	Quebec pegmatite. Feasibility study due 2010.
Orocobre	ASX:ORE	57	1.18	67	-6	73	Argentina Salar de Olaroz. Feasibility study due mid 2010.
Lithium One	TSX V:LI	36	1.79	64	4	60	Cyr pegmatite, Canada. Drilling.
Reed Resources	ASX:RDR	158	0.39	62	15	47	Mt Marion Australia pegmatite. Drilling, metallurgical testing.
TNR Gold Corp	TSX V:TNR	85	0.29	24	0.5	24	Various lithium exploration projects.
Linear Metals	TSX:LRM	53	0.43	23	1.4	21	Seymour Lake pegmatite Canada. Exploration.
Rodinia Minerals	TSX V:RM	35	0.61	21	4	17	Clayton Valley brine Nevada. Drilling.
North Arrow Minerals	TSX V:NAR	26	0.42	11	0.2	11	Big Bird pegmatite Canada. Exploration.
First Lithium	TSX V:MCI	28	0.23	6	0.5	6	Valleyview brine Canada. Exploration.

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## DISCLOSURE

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